

ATHENS AREA SCHOOL DISTRICT
BRADFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mrs. Karen Brennan, Board President
Athens Area School District
204 Willow Street
Athens, Pennsylvania 18810

Dear Governor Rendell and Mrs. Brennan:

We conducted a performance audit of the Athens Area School District (AASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 3, 2006 through April 3, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008, 2007, 2006 and 2005. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding, observation and recommendations have been discussed with AASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve AASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the AASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 22, 2010

cc: **ATHENS AREA SCHOOL DISTRICT** Board Members

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Inadequate Control of Student Activity Funds	6
Observation – Unmonitored Vendor System Access and Logical Access and Logical Access Control Weaknesses	11
Status of Prior Audit Findings and Observations	15
Distribution List	17



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Athens Area School District (AASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the AASD in response to our prior audit recommendations.

Our audit scope covered the period November 3, 2006 through April 3, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08, 2006-07, 2005-06 and 2004-05.

District Background

The AASD encompasses approximately 178 square miles. According to 2000 federal census data, it serves a resident population of 15,533. According to District officials, in school year 2007-08 the AASD provided basic educational services to 2,343 pupils through the employment of 197 teachers, 100 full-time and part-time support personnel, and 15 administrators. Lastly, the AASD received more than \$16.4 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however as noted below, we identified one compliance-related matter reported as a finding and we identified one matter unrelated to compliance that is reported as an observation.

Finding: Inadequate Control of Student Activity Funds. Our audit of student activity funds (SAF) for the 2007-08 and 2006-07 school years found that AASD personnel failed to adhere to SAF policy established by the board (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that AASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over the vendor access to the student accounting applications (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the AASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the AASD had taken appropriate corrective action in implementing our recommendations pertaining to general fund deficits and financial interests forms (see page 15 and 16).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period November 3, 2006 through April 3, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2006 through December 30, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the AASD's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observation and conclusions based on our audit objectives.

AASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with AASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 18, 2007, we reviewed the AASD's response to DE dated May 14, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

24 P.S. § 511 (a) and (d) provides, in part:

The board of school directors in every school district shall prescribe, adopt, and enforce such reasonable rules and regulations as it may deem proper, regarding the management, supervision, control, or prohibition of ...organizations ...clubs, societies and groups of the members of any class or school ...

The treasurer . . . shall submit a financial statement to the board quarterly or oftener, at the direction of the board, and shall submit the accounts to be audited in like manner as the accounts of the school district.

Pennsylvania Association of School Business Officials Activity Fund Guidelines state, in part:

Graduating class or disbanded organization must use for or commit to a proper school-related purpose the unexpended balance of its account prior to graduation or dissolution or as soon as reasonably possible thereafter, but in no case longer than one year.

Student activity funds (SAF) should be used for student activity purposes and for those students currently in school, particularly when those students have contributed to the accumulation of the funds.

No expense should be paid in cash directly from ticket sales, gate receipts, dues collections or other sales or cash receipts.

Inadequate Control of Student Activity Funds

Our audit of Athens Area School District's (AASD) student activity fund (SAF) records for the 2007-08 and 2006-07 school years found that District personnel failed to adhere to the SAF written policies and procedures established by the board. Deficiencies were noted as follows:

- lack of student activity fund by-laws and board meeting minutes;
- inactive student activity accounts;
- lack of internal control;
- lack of internal control over disbursements;
- general fund transactions; and
- non-student related activities.

Lack of Student Activity Fund By-laws and Board Meeting Minutes

Student organizations lacked by-laws, as well as, board meeting minutes. This lack of documentation prevented us from verifying whether the expenditures for each activity account were appropriate.

Inactive Student Activity Accounts

As of June 30, 2008, there were 17 inactive student activity accounts that had accumulated unused balances.

Two of the inactive accounts included the graduated classes of 2003 and 2001, which had account balances of \$304 and \$285, respectively. On August 9, 2006, District personnel transferred all remaining balances to the student body activity account in accordance with board policy.

If the school operates a school store, sells pictures, class rings and/or yearbooks or sells property or services to the public, then the sale would require the collection and remission of the tax directly to the Department of Revenue (DR).

Purchases should be initiated by a purchase order. The purchase order is a pre-printed and pre-numbered form. The treasurer or other officer of the student organization, faculty advisor and school principal should approve all purchase orders.

Fines and fees should go through the General Fund and not through the SAF. Student accounts that are primarily controlled by the district (as opposed to the students) should be accounted for within the General Fund, rather than the SAF.

Generally, SAF should be used to finance a program of activities not part of the regular curriculum. They should not be used to circumvent management or purchasing decisions made for the school district by the board or administration.

Monies that individuals, parent groups or faculty groups collect and disburse should not be included in the SAF. Outside groups should operate independently of the school district and its SAF.

Expenditures for refreshments served at school district sponsored parent events, receptions for community members and/or staff or other expenditures not made to benefit the students should not be included in the SAF.

It is important that SAF account balances are accurately maintained and reported. Being aware of an existing balance helps ensure that students who raised the money and participated in the activity use the revenue for appropriate activities rather than allow balances to accumulate which increases the risk that the monies will not be used for student activity purposes.

Lack of Internal Control

A lack of internal controls led to district personnel's inability to adequately report account balances to students. Monthly reports submitted to the board included net transactions for each account. They did not include SAF account balances.

Our review of the school store account found that cash payments were made as loans to other clubs and amounts for these loans were deducted from the daily deposits of store receipts.

Furthermore, sales tax is not collected or remitted to DR for the sales of taxable items at the school store.

Also, this lack of internal control led to deficit balances in the Class of 2008, Future Business Leaders of America and Girls Basketball accounts at June 30, 2008.

Lack of Internal Control over Disbursements

A lack of control over SAF disbursements resulted in the following:

- requests for payments (purchase orders) being made subsequent to transaction;
- lack of all of the required signatures, and
- insufficient documentation to show students' approval of expenses.

General Fund Transactions

The SAF was improperly used for the following general fund transactions:

- fees for lost books and fines;
- student locks and parking permits;
- tobacco fines collected by the district magistrate;
- the operation of vending machines;
- fees for wood shop and pottery projects used for instructional purposes;
- fees for pottery supplies for the adult education classes; and
- a down-payment of \$1,000 for a \$7,500 project made from the Athens Soccer Foundation to a landscaping company to install the District's soccer field.

Non-Student Related Activities

The SAF was used for the following non-student related activities:

- a community arts festival;
- adult fundraisers and outside donations for community organizations; and
- concession stands operated by coaches and parents.

Recommendations

The *Athens Area School District* should:

1. Require the SAF organizations to adopt by-laws to maintain accountability and require students and advisors to maintain meeting minutes that document student participation in fundraiser and disbursement decisions.
2. Require adequate control be maintained to ensure inactive club accounts are purged yearly.

3. Ensure current balances of inactive accounts are transferred to an authorized SAF club to be designated by the board.
4. Require adequate reports be maintained to evidence ongoing club balances and submit these reports to the board at least quarterly.
5. Ensure no expense is paid in cash directly from other sales or cash receipts as required.
6. Ensure sales tax is collected and remitted to DR for the sales of taxable items at the school store.
7. Require that adequate control be maintained to ensure clubs do not have deficit balances.
8. Require that all purchases be initiated by purchase orders with required signatures including student signatures evidencing participation.
9. Ensure general fund transactions, such as the fees for lost books and fines; student locks and parking permits; tobacco fines collected by the district magistrate; the operation of vending machines; fees for wood shop and pottery projects used for instructional purposes; fees for pottery supplies for the adult education classes; and property improvements are operated through the general fund.
10. Ensure only student related accounts are included in the student activity fund. Non-student related accounts such as the community arts festival, community organizations and concession stands operated by coaches and parents should not be co-mingled with student activity funds.

Management Response

Management stated the following:

The Athens Area School District has an established written manual for all student activity accounting. It is the responsibility of each advisor to adhere to the accounting procedure set forth. Management agrees that a greater degree of accountability needs to be maintained to ensure that all aspects of the manual are followed. The areas that you observed in your finding, as well as others will be monitored and enforced.

Observation

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Athens Area School District uses software purchased from the vendor through Blast Intermediate Unit #17 (IU) for its critical student accounting applications (membership and attendance). The vendor has remote access into the District’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over vendor access to the District’s system:

1. The contract with the vendor did not contain a non-disclosure agreement for the District’s proprietary information.
2. Employees are not required to sign the District’s Acceptable Use Policy.
3. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendor, nor does it require the vendor to sign the District’s Acceptable Use Policy.

4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; and to lock out users after three unsuccessful attempts.
6. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.

Recommendations

The *Athens Area School District* should:

1. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
2. Require the employees to sign the District's Acceptable Use Policy.
3. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Also, the District should lock out users after three unsuccessful attempts.

6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Management Response

Management stated the following:

1. The Athens Area School District has been working with BLaST IU #17 to develop a workable and meaningful non-disclosure agreement. This should be completed and implemented within a year. BLaST IU #17 is the location of the host computer for our data.
2. We currently have an Acceptable Use Policy that is given to all employees. As employees, they are bound to our policies; therefore we respect their professionalism and do not force them to sign such policy.
3. We agree that we have not controlled the activities of our vendors or consultant of any software package. They have developed the package for our use and we rely on their programming to insure that the product functions properly. We do require our OK prior to the vendor reviewing our real-time data.
4. We agree that a better line of communications must exist between the technology department and HR to make necessary changes to who has access to any system. We will work on putting a system in place to accomplish this.
5. We currently have an Account Lockout Policy that we feel fits our District and our employees. We require a password change every 100 days and a lockout after 12 invalid logon attempts.

6. Although the procedure is in place to ensure that we have knowledge of any vendor/consultant activity, our software does not produce a monitoring /logging of all activity in the data base. We will make all efforts to locate and purchase monitoring software to keep us better informed.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Athens Area School District (AASD) for the school years 2003-04 and 2002-03 resulted in two reported findings. The first finding pertained to a general fund deficit, and the second pertained to financial interest forms. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the AASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the AASD did implement recommendations related to a general fund deficit and financial interest forms.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	Implementation Status	
<p><u><i>I. Finding 1: Expenditures Exceeding Revenues, Unrealistic Budget Preparation Contributed to a General Fund Deficit</i></u></p> <ol style="list-style-type: none"> 1. Prepare balanced budgets using historical data as a guide to estimate available revenues, including more accurate estimates of the beginning general fund balances, to project the true financial condition of the District. 2. Implement a plan to provide sufficient revenues for the operation of the District and systematic reduction of the general fund deficit. 	<p>Background:</p> <p>Our prior audit of the District's financial records found the general fund balance decreased during the audit years from a \$209,682 surplus at June 30, 2002, to a deficit of \$447,980 at June 30, 2004. Information obtained from the District's local auditor's reports for subsequent years indicated the deficit continued to increase. The ending general fund deficit reported by the District was \$1,625,794 at June 30, 2005.</p>	<p>Current Status:</p> <p>We followed up on the AASD financial records for the school years ending June 30, 2006 through 2008 and found that the AASD <u>did</u> take appropriate corrective action to improve controls over financial preparations by using historical data when preparing budgets and increasing local revenue.</p> <p>The District had a surplus fund balance at June 30, 2008 of \$994,660.</p>

<p><u>II. Finding 2: Former Board Members Failed to File a Statement of Financial Interests Form</u></p> <ol style="list-style-type: none">1. Immediately have all former board members file Statements of Financial Interests forms for all years that they served on the school board and did not file so that they are in compliance with the Ethics Act.2. Implement procedures to ensure all individuals required to file Statements of Financial Interests forms do so in compliance with the Ethics Act.3. Seek the advice of its solicitor in regard to the board's responsibility when a member fails to file Statements of Financial Interests form.	<p>Background:</p> <p>Our prior audit of District records for the calendar years ended December 31, 2005, 2004 and 2003 found that two former board members failed to file their Statements of Financial Interests forms for the calendar year ending December 31, 2005.</p>	<p>Current Status:</p> <p>We followed up on the AASD statements of financial interest forms for calendar years ending December 31, 2006 and 2007 and found that the AASD <u>did</u> take appropriate corrective actions and implemented procedures to ensure compliance with the Ethics Act.</p> <p>The two former board members subsequently filed their Statements of Financial Interests forms for the calendar year ending December 31, 2005.</p>
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Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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